



# **OCC Newsletter**

## **Winter 2006**

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### **OCC Enters Rate Settlement Agreement With Rural Water Company**

On January 25, 2006, the Department of Public Utility Control (“DPUC or “Department”) adopted a Settlement Agreement that was submitted by the Rural Water Company (“Rural”) and the Office of Consumer Counsel (“OCC”) on November 3, 2005. Under the Settlement Agreement, the Settling Parties filed a petition to reopen Rural’s last rate case proceeding, Docket No. 03-09-04, to allow an increase its rates based on limited issues that are covered by Connecticut General Statute (“Conn. Gen. Stat.”) § 16-32c.

Under the Settlement Agreement, Rural will be allowed to increase its rates and revenues by an average of 7.3% or \$34,377 annually for increases in purchased water, fuel and power for pumping, water treatment labor, water testing and collection, maintenance costs and municipal property taxes. In addition to what was set forth in this Settlement Agreement, Rural shall not file an application for increased rates and revenues prior to January 1, 2007.

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### **UI Allowed Distribution Rate Increases**

On January 27, 2006, the Department of Public Utility Control approved annual distribution rate increases of \$14.3 million for 2006, and incremental rate increases of \$4.3 million, \$10.3 million, and \$6.7 million in years 2007, 2008, and 2009, respectively. The Department, however, will mitigate the impact on ratepayers in 2006, by utilizing an approximate \$15 million of projected 2006 federally mandated congestion charges (“FMCC”) over-recoveries. The Decision allowed distribution rate increases that would have resulted in bill increases of 2% for 2006, and subsequent annual incremental distribution rate increases of approximately 3%, had the Department not credited ratepayers for such over-collections.



In this proceeding, OCC opposed the multi-year rate plan proposed by UI, and, instead, proposed setting the Company's revenue requirements for a single rate year. In the event that rates were to be set for a four-year rate plan, OCC recommended rate reductions of \$2.4 million and \$3.7 million in 2006 and 2007, and rate increases of \$115,000 and \$5.2 million in 2008 and 2009. Some major issues where OCC advocated adjustments to the proposed rate increase related to return on equity, capital structure, long-term interest rates, plans to construct a Central Facility campus, employee levels, payroll and benefits and projected capital expenditures.

While UI ratepayers have been able to avoid significant electric bill increases so far in 2006, UI ratepayers should expect significant bill increases for 2007. Issues affecting UI's future rates include the need to negotiate new generation supply contracts to be in place by January 1, 2007, and potential increases in FMCCs that are related to LICAP and other issues.

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## Avon Water Company Rate Case

On October 13, 2005, the Avon Water Company ("Avon" or "Company") filed an application with the Department of Public Utility Control ("DPUC" or the "Department") to amend its existing rate schedules. The original rate application revised by Department order, as suggested by the OCC, would increase *pro forma* revenues by approximately \$989,960, or approximately 39.20%. If the OCC's final positions are adopted in total, this would result in a rate increase of \$827,338 above current rates.

The OCC does not agree with some of the Company's positions, and recommended a number of adjustments to the proposed rate increase, adjustments that the OCC believes will allow Avon to improve its financial condition and the quality of service offered to its ratepayers. The OCC has stated that Avon's request for return on equity of 10.45% is excessive, and should be reduced to 9.20%, while its requested overall rate of return of 8.96% is excessive and should be reduced to 8.07%.

The difference between the Company's rate base and total capitalization is out of balance, since awarding Avon's requested return on equity of 10.45% would result in a net income return on equity of 14.45% for the Rate Year. This would result in earnings well above the allowed profit level. In this rate proceeding, the Department should determine a return on equity level that is near the bottom of the acceptable range, or consider abandoning the return on rate base method for determining the Company's net income.



Most importantly, the OCC also advocated that Avon's rate structure be established in a manner that would accomplish full rate equalization of the entire water system in the current proceeding. (Docket No. 05-10-12, *Application of Avon Water Company to Increase Its Rates*).

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## CL&P's Rate Increase for TSO Service

On December 28, 2005, the DPUC reached its Final Decision setting the rates that The Connecticut Light and Power Company ("CL&P") could charge for Transitional Standard Offer ("TSO") service in 2006. This case generated statewide publicity, because CL&P had asked for rates representing a 22% increase over its 2005 TSO rate. The TSO is a service that CL&P (and UI) must offer, for customers who have not chosen a competitive generation supplier. This increase relates to the generation portion on customers' bills and is no longer regulated by the state. These prices are determined in the competitive energy wholesale market. Because very few customers have made such choices, and very few suppliers are even offering competitive generation, TSO is the electric service for the overwhelming majority of CL&P and UI customers.

CL&P's TSO rates went up dramatically from 2005 to 2006, because of the price results that CL&P obtained when it purchased the final fraction of its TSO energy last October. This rate increase actually could have been even worse, had CL&P not purchased some of its 2006 TSO power in prior years? From 2003, the DPUC had structured the TSO procurement process so that OCC had no opportunity to question how these purchases were made.

Given CL&P's energy procurement results, there was little OCC could do to moderate the extraordinary rate increase the Company had requested. Nonetheless, we asked the DPUC to take an approach that would limit this increase to around 15% for the first half of the year. In its final decision, the DPUC accepted part of what OCC advocated, ordering a 17% increase for the first three months of 2006 and a 22% increase for the remainder of the year.

Starting in 2007, the TSO will be replaced by Standard Service (and also Last Resort Service, mandated for a few large customers). OCC will continue its ratepayer advocacy in this new context, and expects to report on this in a future newsletter.



## Crystal Water Company of Danielson

The Crystal Water Company of Danielson ("Crystal") currently serves a total of 4,983 customers in Connecticut. 3,744 customers in its Crystal Division live in the towns of Killingly, Plainfield, Brooklyn, and Thompson. Approximately 1,239 customers in its Gallup Division live in the towns of Plainfield and Griswold.

On July 8, 2005 Crystal requested the approval by the Department of Public Utility Control ("DPUC" or the "Department") of a revenue increase of \$768,659, or approximately 27.25% increase over test year revenues. Crystal also proposed to increase its rates for meter service charges, commodity charges and its fire protection charge across-the-board by approximately 27.60%.

On December 28, 2005, the Department issued the Decision in Docket No. 05-07-08, *Application of Crystal Water Company of Danielson to Amend Rate Schedules*. The DPUC approved total revenues of \$3,431,982, an overall increase of \$603,999. The increase comes to approximately 21.36% over adjusted pro forma revenues at the present rate of \$2,827,983. It includes the across-the-board rate increase of 21.35% for meter service charges, commodity charges, and fire protection charges. The rate for the return on equity ("ROE") was approved for 10%.

The increase breaks down as follows:

For a 5/8 inch meter customer billed quarterly:

Crystal Division: \$ 73.69 at present rates increases to \$ 89.42, an increase of \$15.73.

Gallup Division: \$ 98.86 at present rates increases to \$119.97, an increase of \$21.11.

Brookside: \$111.21 at present rates increases to \$134.95, an increase of \$23.74.

At the same time all unmetered customers in the Gallup Division are now metered and, therefore, all fixture rates are eliminated.

All private and public fire protection will be metered quarterly.

The approved return on rates ("ROR") was approved for 7.55%. This enables Crystal to meet interest costs, fund its capital projects and earn a fair and reasonable ROR.

Crystal and Unionville are slated to merge with the Connecticut Water Company in the year 2006.





## Energy Independence – The First Steps

Electric rates are going up in Connecticut. After Connecticut restructured its electric industry, and CL&P and UI sold their generation plants, the New England wholesale market (administered by ISO New England (“ISO-NE”), and regulated by FERC) became a much more important influence on prices for the generation component of electric rates than it had been previously. In recent years, FERC has ordered ISO-NE to pursue numerous initiatives affecting the structure of this wholesale market. Many of these initiatives, and particularly the capacity market concept known as LICAP, are expected to be expensive for Connecticut. These federal charges appear on customer bills under the “FMCC” heading.

In anticipation of the costs of these federal initiatives, and of LICAP in particular, the General Assembly passed the Energy Independence Act (“EIA”) (PA 05-1) during last June’s Special Session. This fall, the DPUC has been implementing the first phase of the energy independence initiatives that the EIA requires or encourages. In its Phase One EIA decision (12/28/05), the DPUC ordered CL&P and UI to implement several new conservation (usage saving) measures, and to promote a variety of distributed resource (i.e., small scale, localized generation) projects. In these dockets, OCC has advocated a supportively cautious approach. Most EIA initiatives will cost money, raising rates in the short-term, with the hope of longer-term savings and other benefits. This makes it vital for the projected savings from such projects to be both clearly achievable and substantial.

Energy independence is an ongoing project at DPUC. OCC will continue to participate in the relevant DPUC dockets, and expects to report on their status in future newsletters.

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## OCC Supportive of LICAP Settlement Proposal

As has been discussed in previous newsletters, OCC has been an active participant in a proceedings before the Federal Energy Regulatory Commission (“FERC”) known as the locational installed capacity (“LICAP”) payment proceeding. Capacity payments are payments made to the owners of power plants for making those power plants available. Energy payments are made to the owners of power plants based on the energy the power plants produce. OCC had vehemently opposed the LICAP approach advanced by ISO-New England, the operator of the region’s transmission grid. The opposition is based on the fact that the proposal would be too expensive, and would not likely lead to the construction of new capacity at a reasonable price. Most other Connecticut and New England government agencies, and elected officials, including Governor Rell, the Connecticut and New England



Congressional Delegations, and the Connecticut Department of Public Utility Control (“DPUC”), also opposed LICAP.

FERC re-opened settlement discussions in the late autumn of 2005 in order to resolve the dispute between power plant owners and government officials regarding capacity payments. The settlement discussions took place over an intensive two months. The resulting proposed agreement remains confidential, but reflects what OCC believes will be a significantly less expensive, and more constructive approach to creating a capacity market than was the LICAP proposal. As a negotiated product, the proposed settlement does not reflect every term and condition that OCC would have liked as part of the capacity market, nor does it entirely reflect the wishes of any other individual party to the negotiations. However, the settlement reflects many of the long-term market principles that OCC and its allies espoused during the LICAP proceedings. It is also expected to be more affordable than the original LICAP payment, in the near-term. For these reasons, OCC has voted at FERC to support the LICAP Settlement, as it is currently constituted. The DPUC has expressed its support of the settlement for similar reasons.

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## **“If It Quacks Like A Duck, It Must Be A Duck”**

Docket No. 05-06-12, DPUC Investigation of the Terms and Conditions Under Which Video Products May Be Offered by Connecticut’s Incumbent Local Exchange Companies, is concerned with how the new video services, the Bells (the “new” AT&T and Verizon in Connecticut) will be providing their customers in the next few years, will be regulated. The bottom line is: should the Bells be regulated like cable operators when they furnish video programming? The Bells of course believe they should not be burdened with community access and other public policy obligations that have integrated the programming of the cable operators into the local communities in which they operate for decades. The balance to be examined is how much regulation is right for this nascent technology that is undoubtedly about to sweep through the country. Specifically it will examine who will do the regulating, and how much oversight to apply without harming the growth of this new technology and the rollout of the services that will make it possible.

The OCC believes that the Department should place public policy goals paramount, and impose federal law requirements for cable operators on the provision of any video services offered in this state. There are legitimate public policy concerns to be addressed: while telecommunications ranked among the lowest industries in a customer-satisfaction survey during the last few years, cable and satellite companies earned the lowest ranking of the telecommunications group at 61 on a scale of 100. This is compared with wireless carriers at 63, and local and long-distance service providers skidding in at a faintly better 70 points.

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Mary J. Healey, Consumer Counsel



The OCC is particularly concerned about the attitude of AT&T toward low-income households and communities. It has publicly stated, on several occasions, that it will be targeting high volume users of telecommunications, not low volume users, as it rolls out its services. This is “red lining,” carving out haves- and have-nots, is illegal, and must be prevented. Cable operators are prevented from such practices by federal law and state regulations.

As regulators and the parties debate how much freedom to provide the Bells based on promises of competition and technological achievement, the reality is that these same companies are steadily evolving toward a well-earned position at or near the bottom of customer satisfaction. It seems clear that well-enforced regulations are necessary.

The present Docket presents an exciting new technology that will certainly usher in opportunities for providers and consumers alike, changing the face of telecommunications completely. As the OCC has argued in this case, “if it quacks like a duck, it must be a duck.” Here television and other entertainment services, pumped into homes via whatever technology possible, are all the same to the consumer and in terms of public policy. If consumers can’t tell the difference in how video is delivered to their homes, why shouldn’t all providers be regulated on the same basis, fulfilling important public policies? Docket No. 05-06-12 will be decided in the next few months.

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## SCG Amended Rate Case Settlement Approved

In a Decision dated December 28, 2005, the Department of Public Utility Control (“DPUC” or the “Department”) approved a rate increase for the Southern Connecticut Gas Company of \$26.7 million, or 8.4% above current rates. The Department’s Decision approved, with modification, an amended settlement agreement between the Company, the Prosecutorial Division of the DPUC, Select Energy, Inc., Amerada Hess Corporation, and the OCC. The Amended Settlement resolves the following major issues: a reduction from the revised rate increase request from approximately \$39.2 million to the level allowed by the DPUC; a two-year distribution rate stay-out provision where the Company will not file a rate application with the DPUC prior to December 31, 2007; a requirement for SCG to enter into a full utilization contract of the Milford LNG Facility at cost of service rates and develop a cost-based peaking service available to marketers; the settlement of two court appeals of prior DPUC proceedings involving the Company’s PGA clause and exogenous cost recovery; issues relating to claimed and achieved merger savings through December 31, 2004; and the adoption of new initiatives to address bad-debt expenses and hardship accounts within SCG’s service territory.

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The reduction in revenue requirements from the original rate proposal is based on adjustments to the allowed return on equity level to 10.0%, reductions in merger related debt interest expense; a write-off of \$4.25 million of non-hardship account balances over 360 days, changes in the treatment of the interruptible target margin and the sharing between ratepayers and shareholders of excess interruptible margin, decreases in depreciation expenses and other operations and maintenance expenses. The approved settlement also made changes to policies and practices surrounding the build-up of non-hardship uncollectible accounts, as well as the accounting of hardship uncollectible accounts. The Department's Decision modified the Settlement to include, in base rates, the recovery of the Hardship Grant Program.

While SCG's distribution rates increased by approximately \$500,000, or 0.2%, in 2000, this Decision represents the first significant increase in the Company's distribution rates since 1993. Given the large run up in natural gas costs experienced over the last five years and associated impact on SCG's uncollectible accounts, including the deferral of hardship balances for future recovery from ratepayers, OCC believes the Amended Settlement Agreement as modified by the DPUC, is a fair and reasonable outcome. The results of the Settlement Agreement will assist the Company in addressing the challenges of bad debt expenses in its service territory.

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**The Connecticut Office of Consumer Counsel (OCC)** is the State of Connecticut's advocate for all utility ratepayers. OCC seeks to ensure just and reasonable rates and reliable utility service for customers of Connecticut's electric, gas, telephone, and water utilities and reasonable protections for cable television customers. OCC's advocacy includes the promotion of beneficial policies for ratepayers, such as the conservation of energy resources. We participate actively in proceedings before the Connecticut Department of Public Utility Control, the Federal Energy Regulatory Commission, the Federal Communications Commission, and state and federal courts. We also seek to advance the goals and protect the needs of ratepayers at the U.S. Congress and the State Legislature.

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